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COMPLETED

EXAMINATION OF FINANCIAL STATEMENTS, FEDERAL HOME LOAN BANK BOARD, FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION, AND THE FEDERAL HOME LOAN BANKS FOR THE YEAR ENDED DECEMBER 31, 1981

COMMUNICATION

FROM

THE COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTING

A REPORT ON THE REVIEW OF FINANCIAL STATEMENTS OF THE FEDERAL HOME LOAN BANK BOARD, THE FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION, AND THE FEDERAL HOME LOAN BANKS FOR THE YEAR ENDED DECEMBER 31, 1981, PURSUANT TO SECTION 106 OF THE GOVERNMENT CORPORATION CONTROL ACT

MAY 12, 1982.—Referred to the Committees on Government Operations and Banking, Finance and Urban Affairs and ordered to be printed

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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination of Financial Statements Of The Federal Home Loan Bank Board And Related Agencies For The Year Ended December 31, 1981

GAO examined the financial statements of the Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, and Federal Home Loan Banks for the year ended December 31, 1981. The examination was made in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Board, Banks, and Insurance Corporation at December 31, 1981, and the results of their operations and the changes in their financial positions for the year then ended in conformity with generally accepted accounting principles.

AFMD-82-58
APRIL 29, 1982

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206830

The Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives

Dear Mr. Speaker:

This report presents our opinion on the 1981 financial statements of the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation (FSLIC), and the Federal Home Loan Banks.

We made our examination pursuant to the provisions of the Federal Home Loan Bank Act (12 U.S.C. 1431(J)) and the Government Corporation Control Act (31 U.S.C. 850), and in accordance with generally accepted government auditing standards. The Federal Home Loan Bank Board supervises the activities of the Banks and the FSLIC; therefore, we included the Board's financial statements in our examination.

In our opinion, the financial statements present fairly the financial position of the Board, Insurance Corporation, and Banks at December 31, 1981, and the results of their operations and the changes in their financial positions for the year then ended in conformity with generally accepted accounting principles.

Given the state of the economy and the present condition of the industry, it is possible that FSLIC could sustain increasing losses due to its default prevention activities. Because of the uncertainties ahead and the fact that many of the reasons for default are beyond FSLIC's control, the potential losses cannot be predicted with any precision. If interest rates remain at present levels, we believe the procedures FSLIC has adopted in the last half of 1981 for assisting failing institutions at minimum cost to the fund should enable it to manage the additional liability the fund expects to incur in the foreseeable future.

We are also sending this report today to the President of the Senate. Copies are being sent to the Director, Office of Management and Budget, the House and Senate Banking Committees, the House and Senate Committees on Appropriations, the Senate Committee on Governmental Affairs, the House Committee on Government Operations, the Committee on HUD-Independent Agencies, and the Federal Home Loan Bank Board.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206830 March 24, 1982

To the Board of Directors of the
Federal Home Loan Bank Board

We have examined the statements of condition of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation, and the combined statement of condition of the Federal Home Loan Banks, as of December 31, 1981, and their related statements of income, expense, retained earnings, primary reserve, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted government auditing standards. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Board, Insurance Corporation, and Banks at December 31, 1981, and the results of their operations and the changes in their financial positions for the year then ended in conformity with generally accepted accounting principles. We did not examine their financial statements for the year ended December 31, 1980, and accordingly, we do not express an opinion on them.

Charles A. Bowsher

Comptroller General
of the United States

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FEDERAL HOME LOAN BANK BOARD

OPINION ON FINANCIAL STATEMENTS

We have examined the statement of condition of the Federal Home Loan Bank Board as of December 31, 1981, and the related statements of income, expenses and retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the accompanying financial statements (p. 4) present fairly the financial position of the Board at December 31, 1981, and the results of its operations and the changes in its financial position for the year then ended in conformity with generally accepted accounting principles. We did not examine the financial statements for the year ended December 31, 1980, and accordingly, we do not express an opinion on them.

(1)

FEDERAL HOME LOAN BANK BOARD

REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the financial statements of the Federal Home Loan Bank Board for the year ended December 31, 1981. Our opinion on them is on page 1. As part of our examination, we made a study of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. Our purpose was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Federal Home Loan Bank Board's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal control taken as a whole.

For the purposes of this report, we have classified the significant internal accounting controls as follows:

--Accounts receivable.
--Furniture, fixtures, and equipment.
--Accounts payable and accrued liabilities.
--Examinations fees income.
--Personnel compensation and benefits.

We studied and evaluated all the internal control categories listed above except the internal controls over furniture, fixtures, and equipment. A revised system of identifying these items was in process and a revised accounting system is planned. It was more efficient for us to expand our substantive tests than to rely on controls over furniture, fixtures, and equipment.

The management of the Board is responsible for establishing and maintaining a system of internal accounting control. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods carries the risk that (1) procedures may become inadequate because of changes in condition or (2) the degree of compliance with the procedure may deteriorate.

The study and evaluation made for the limited purpose described in our first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Federal Home Loan Bank Board taken as a whole. However, our study and evaluation disclosed no material weaknesses.

FEDERAL HOME LOAN BANK BOARD

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Federal Home Loan Bank Board for the year ended December 31, 1981. Our opinion on them is on page 1. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We reviewed the provisions of laws and regulations of the Board to determine the material compliance requirements which may have a financial impact on the Board's financial statements.

In our opinion, with regard to the transactions tested, the Federal Home Loan Bank Board complied with the provisions of applicable laws and regulations that could have materially affected the financial statements. For those transactions not tested, nothing came to our attention in connection with our examination that caused us to believe that the Federal Home Loan Bank Board was not in compliance with any of the provisions of applicable agreements, laws, and regulations.

Federal Home Loan Bank Board Financial Statements

Federal Home Loan Bank Board: Comparative Statement of Condition at December 31, 1981 and 1980

Assets, Liabilities, and Capital	1981	1980
Assets		
Cash with U.S. Treasury (Note 2)	$1,263,248	$1,191,682
Accounts Receivable	11,208,395	10,573,187
Land and Building (Notes 1 and 3)	45,365,951	44,785,357
Furniture, Fixtures, and Equipment (Note 1)	3,921,223	3,772,716
Tenants Improvements (Note 1)	1,560,389	1,552,542
Other	335,601	130,128
Total Assets	**$63,654,807**	**$62,005,612**
Liabilities and Capital:		
Accounts Payable and Accrued Liabilities	$6,347,339	$4,557,714
Employees Accrued Annual Leave	3,271,130	2,803,532
Total Liabilities	**$9,618,469**	**$7,361,246**
Retained Earnings	$9,036,338	$9,644,366
Paid in Capital—FHLBB Quarters	45,000,000	45,000,000
Total Capital	**$54,036,338**	**$54,644,366**
Total Liabilities and Capital	**$63,654,807**	**$62,005,612**

Federal Home Loan Bank Board: Comparative Statement of Income, Expenses, and Retained Earnings for the Years Ended December 31, 1981 and 1980 (Note 4)

Income, Expenses, and Retained Earnings	1981	1980
Income		
Examination Fees from Savings and Loan Institutions	$19,984,759	$4,171,934
Assessments:		
Federal Home Loan Banks	8,927,907	7,275,604
Federal Savings and Loan Insurance Corporation	29,864,739	16,826,682
Reimbursements for Services Performed	219,530	184,855
Miscellaneous	1,269,252	1,400,884
Total Income	**$60,266,187**	**$29,859,759**
Expenses:		
Personnel Compensation	$39,575,006	$18,953,412
Personnel Benefits	3,812,938	1,739,054
Travel and Transportation	5,714,446	2,154,466
Rent, Communication, and Utilities	4,043,468	2,172,868
Depreciation:		
Furniture, Fixtures, and Equipment	751,018	622,727
Building	800,000	800,000
Tenants Improvements	84,000	84,000
Other Services	3,858,311	3,217,778
Printing and Reproduction	518,516	189,223
Supplies and Materials	716,516	561,431
Total Expenses	**$60,874,215**	**$30,494,759**
Net Income	(608,028)	(635,000)
Retained Earnings at Beginning of Year	9,644,366	12,014,449
Adjustment to Prior Years (Note 4)	-0-	(1,735,083)
Retained Earnings at End of Year	**$9,036,338**	**$9,644,366**

Federal Home Loan Bank Board: Comparative Statement of Changes in Financial Position for the Years Ended December 31, 1981 and 1980 (Note 4)

Changes in Financial Position	1981	1980
Sources of Working Capital:		
Net Income	($608,029)	($635,000)
Add Non-Cash Charges Against Income Not Affecting Working Capital:		
Depreciation:		
Building	800,000	800,000
Furniture, Fixtures, and Equipment	751,018	622,727
Tenants Improvements	84,000	84,000
Working Capital Provided by Operations	**$1,026,987**	**$871,727**
Extraordinary Adjustments:		
Transfer of Annual Leave Liability from Retained Earnings (Note 4)	—0—	(1,735,083)
Total	**$1,026,987**	**($863,356)**
Application of Working Capital:		
Additions to Land and Building	$1,380,594	$355,834
Additions to Furniture, Fixtures, and Equipment	899,522	477,650
Additions to Tenants Improvements	91,847	21,544
Total	$2,371,963	$855,028
Net Increase (Decrease) in Working Capital	**($1,344,976)**	**($1,718,384)**
Analysis of Changes in Working Capital:		
Increase (Decrease) in Current Assets:		
Cash with U.S. Treasury	$71,566	$725,344
Accounts Receivable and Advances	635,208	2,110,178
Prepaid Expenses	205,473	127,878
	$912,247	$2,963,400
Increase (Decrease) in Current Liabilities:		
Employees Accrued Annual Leave	$467,598	$2,083,380
Accounts Payable	1,789,625	2,598,404
	$2,257,223	$4,681,784
Increase (Decrease) in Working Capital	**($1,344,976)**	**($1,718,384)**

Federal Home Loan Bank Board: Notes to Financial Statements December 31, 1981 and 1980

1. Summary of significant accounting policies:

a. Furniture, Fixtures, and Equipment—These assets are at cost less accumulated depreciation of $2,774,634 and $2,196,113 at December 31, 1981 and 1980, respectively. Depreciation is computed on the straight-line method over the estimated useful life of the property.

b. Building—This asset is at cost less accumulated depreciation of $3,000,000 at December 31, 1981.

c. Tenants Improvements—This asset is at cost less accumulated depreciation of $176,545 at December 31, 1981.

2. An additional $90,711 and $138,921 were available at December 31, 1981 and 1980, respectively, in a separate fund provided by appropriations pursuant to the provisions of the *Emergency Home Finance Act of 1970*. Use of such funds is for the purpose of adjusting the effective interest charged by the Federal Home Loan Banks on short- and long-term borrowing in order to promote an orderly flow of funds into residential construction.

3. Includes $3.1 million which is the book value of the remaining portion of the original site for the new building.

4. Significant year-to-year fluctuation in some items is due to the reorganization of the Office of Examination and Supervision from the Federal Savings and Loan Insurance Corporation into the Federal Home Loan Bank Board at October 1, 1980.

The statements for 1980 are unaudited.

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FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

OPINION ON FINANCIAL STATEMENTS

We have examined the statement of financial condition of the Federal Savings and Loan Insurance Corporation as of December 31, 1981, and its related statements of income, expense, and primary reserve, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements (pp. 8 and 9) present fairly the financial position of the Insurance Corporation at December 31, 1981, and the results of its operations and source and application of funds for the year then ended in conformity with generally accepted accounting principles. We did not examine the financial statements for the year ended December 31, 1980, and accordingly, we do not express an opinion on them.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the financial statements of the Federal Savings and Loan Insurance Corporation for the year ended December 31, 1981. Our opinion is on page 5. As part of our examination, we made a study of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. Our purpose was to determi e the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Federal Savings and Loan Insurance Corporation's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal control taken as a whole.

For the Insurance Corporation, we have classified the significant internal accounting controls as follows:

--Investments and interest on investments.

--Assets acquired from insured institutions and related liabilities, income, and expenses.

--Insurance premiums.

We studied and evaluated each of these internal control categories.

The management of the Federal Home Loan Bank Board is responsible for establishing and maintaining a system of internal accounting control. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods carries the risk that (1) procedures may become inadequate because of changes in condition or (2) the degree of compliance with the procedure may deteriorate.

The study and evaluation made for the limited purpose described in our first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Federal Savings and Loan Insurance Corporation taken as a whole. However, our study and evaluation disclosed no material weaknesses.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Federal Savings and Loan Insurance Corporation for the year ended December 31, 1981. Our opinion on them is on page 5. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We reviewed the provisions of laws and regulations to determine the material compliance requirements which may have a financial impact on the Insurance Corporation's financial statements.

In our opinion, with regard to the transactions tested, the Federal Savings and Loan Insurance Corporation complied with the provisions of applicable laws and regulations that could have materially affected the financial statements. For those transactions not tested, nothing came to our attention in connection with our examination that caused us to believe that the Federal Savings and Loan Insurance Corporation was not in compliance with any of the provisions of applicable agreements, laws, and regulations.

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Federal Savings and Loan Insurance Corporation Financial Statements

FSLIC: Comparative Statement of Financial Condition at December 31, 1981 and 1980

Assets, Liabilities, and Reserves	1981	1980
Assets		
Cash	$ 2,436,212	$ 1,919,924
Receivables	22,709,072	18,730,086
Investments at Amortized Cost (Notes 1 and 2)	4,771,332,460	5,059,560,890
Accrued Interest on Investments	86,934,056	91,177,743
Income Capital Certificates (Note 9)	84,000,000	-0-
Assets Acquired from Insured Institutions, Net of Allowance for Possible Future Losses (Notes 3 and 4)	1,611,694,509	1,200,564,335
Loans to Insured Institutions and Accrued Interest, Net (Note 7)	389,990,518	214,774,467
Deferred Charges and Other Assets (Note 1)	104,718	106,264
Subrogated Accounts in Insured Institutions in Liquidation	88,230,822	-0-
Total	**$7,037,432,365**	**$6,586,953,729**
Liabilities and Reserves		
Miscellaneous Accrued and Other Liabilities	$ 38,750,422	$ 100,545,055
Notes Payable to Insured Institutions (Note 9)	84,000,000	-0-
Allowance for Possible Future Losses under Contribution Agreements (Notes 5 and 6)	612,516,888	17,528,888
Deferred Credits	619,457	6,611,980
Primary Reserve (Cumulative Net Income)	5,702,264,223	5,670,095,814
Secondary Reserve (Premium Prepayments)	599,261,377	792,172,192
Total (Notes 11 and 12)	**$7,037,432,365**	**$6,586,953,729**

FSLIC: Source and Application of Funds Statement for the Years Ended December 31, 1981 and 1980

Funds Provided By:	1981	1980
Net Income	$32,188,409	$779,112,294
Adjust for Items Not Affecting Working Capital:		
Depreciation of Furniture, Fixtures, and Equipment and Amortization of Leasehold Improvements	13,729	33,046
Adjustment to Provisions for Losses on:		
Assets Acquired from Insured Institutions	10,520,000	-0-
Estimated Future Contributions to Insured Institutions	861,991,679	15,084,140
Return on Secondary Reserve	55,457,853	67,562,445
Transfers from Secondary Reserve to Pay Insurance Premiums	(117,574,918)	(112,701,788)
Amortization Income	(1,753,812)	(4,237,915)
Subtotal	$840,842,742	$744,832,222
Realization on Assets Acquired from Insured Institutions:		
Principal Payments on Mortgage Loans	58,688,192	18,659,044
Principal Payments on Contracts and Other Assets	67,424,411	22,754,826
Cash Sales of Real Estate and Other Assets	1,368,523	148,193
Adjustment to Allowance for Loss Accounts for Prior Year Items	18,082	17,937
Subtotal	$125,519,208	$39,580,000
Excess Book Value over Cost	-0-	16,587,319
Issuance of Notes Payable to Insured Institutions (Note 9)	84,000,000	-0-
Principal Payments on Loans to Insured Institutions	23,026,117	4,415,648
Reduction in Securities (Note 10)	289,957,000	635,491,000
Decrease in Working Capital	-0-	94,729,134
Principal Payment on Notes and Advance Contributions	2,121,509	721,025
Total Funds Provided	**$1,365,368,578**	**$1,536,336,348**

FSLIC: Comparative Statement of Income, Expense, and Primary Reserve for the Years Ended December 31, 1981 and 1980

Income, Expenses, and Primary Reserve	1981	1980
Income		
Examination Fees and Charges (Note 8)	$ -0-	$ 13,426,247
Insurance Premiums (Note 1)	425,070,211	399,102,562
Interest on Investments	409,244,007	435,218,736
Interest on Loans to Insured Institutions	32,778,819	10,439,951
Income on Assets Acquired from Insured Institutions	144,426,122	53,768,246
Interest Income on Notes Receivable and Advanced Contributions	838,398	859,374
Miscellaneous Income	4,430	612,200
Nonoperating Income	84,853	28,335,312
Total Income	**$1,012,226,839**	**$941,562,828**
Expenses		
Administrative:		
Department of Examinations—Home Office	$ -0-	$ 908,922
Department of Examinations—Field	-0-	23,709,609
Subtotal Department of Examinations (Note 8)	$ -0-	$24,618,531
Department of Insurance	989,891	853,533
Total Administrative	$989,891	$25,472,064
Loss on Sale of Securities	8,641,009	39,318,006
Services Rendered by Federal Home Loan Bank Board	29,864,739	16,826,881
Insurance Settlement and Other Expenses	10,094,400	8,660,351
Unallocated Nonadministrative Expense	2,491,050	1,118,847
Net Provision for Possible Future Losses (Notes 4 and 6)	872,511,679	15,084,140
Interest Applied to Members' Equity in Secondary Reserve	55,457,853	67,562,445
Total Expenses	**$980,940,221**	**$182,460,334**
Primary Reserve		
Net Income Transferred to Primary Reserve	32,188,409	779,112,294
Balance, Beginning of Year	5,670,095,814	4,890,983,520
Balance, End of Year	$5,702,284,223	$5,670,095,814

FSLIC: Source and Application of Funds Statement for the Years Ended December 31, 1981 and 1980—Continued

Funds Applied To:	1981	1980
Acquisition of Assets:		
Subrogated Accounts in Insured Institutions in Liquidation	$ 88,230,822	$ -0-
ICCs Acquired from Insured Institutions (Note 9)	84,000,000	-0-
Assets Purchased from Insured Institutions	530,538,441	1,198,122,152
Capitalized Expenditures on Assets Acquired from Insured Institutions	24,769,132	17,383,549
Furniture, Fixtures, and Equipment and Leasehold Improvements	3,828	(141,156)
Loans to Insured Institutions	199,337,387	148,574,518
Contributions to Insured Institutions	267,003,481	41,580,879
Refund of Secondary Reserve	130,793,553	119,515,581
Increase in Cash	516,287	1,310,846
Increase in Working Capital	70,185,885	-0-
Total Funds Applied	**$1,365,368,578**	**$1,536,336,348**

The statements for 1980 are unaudited.

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Federal Savings and Loan Insurance Corporation
Notes to Financial Statements
December 31, 1981 and 1980

1. Summary of significant accounting policies:

a) Investments—Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion are computed on the "constant yield" method at rates based upon the lives of the related securities and are recognized as an adjustment to interest income on investments.

b) Furniture and equipment—These assets are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful life of the property. The net balance of this account is insignificant and is included in other assets.

c) Income recognition—Insurance premium income is recognized as earned when member institutions are assessed.

2. Investments—The investments at December 31, 1981 and 1980, are (in millions):

	1981	
	Book Value	Market Value
U.S. Treasury Obligations	$4,693.2	$3,844.1
Federal Agency Securities	78.1	57.5
Total	$4,771.3	$3,901.6

	1980	
	Book Value	Market Value
U.S. Treasury Obligations	$4,981.9	$4,234.9
Federal Agency Securities	77.6	58.8
Total	$5,059.5	$4,293.7

3. In 1980 and 1981, the FSLIC acquired substantial assets from insured institutions in its default prevention activities. Such assets were purchased by the FSLIC at the value carried on the insured members' books. These assets, consisting principally of GNMA securities and loans secured by real estate are estimated to have market values of $1,186 million and $833 million at December 31, 1981, and December 31, 1980, respectively.

4. The changes in the Allowance for Possible Future Losses regarding assets acquired by the FSLIC for the years ended December 31, 1981 and 1980, are:

	1981	1980
Allowance for Possible Future Losses		
Balance, Beginning of Period	$10,510,622	$10,561,818
Add: Provision Charged to Expense	10,520,000	-0-
Add: Adjustment Due to Acquisition	18,082	17,937
Less: Losses Realized on Assets Acquired During Period	5,226,346	69,133
Balance, End of Period	$15,822,358	$10,510,622

5. The FSLIC makes contribution agreements to restore an insured institution to normal operations and, under these arrangements, agrees to make, or commits itself to make, certain contributions over time. The remaining contingent liability under these agreements in excess of the Allowance for Possible Future Losses totaled $461,886,000 and $262,314,890 at December 31, 1981 and 1980, respectively.

6. The changes in the Allowance for Possible Future Losses under contribution agreements for the years ended December 31, 1981 and 1980, are:

	1981	1980
Allowance for Possible Future Losses		
Balance, Beginning of Period	$17,528,688	$44,055,427
Add: Provision Charged to Expense	861,991,679	15,064,140
Less: Contributions Paid During Period	267,003,481	41,590,879
Balance, End of Period	$612,516,886	$17,528,688

7. Loans to Insured Institutions includes advance payments made by FSLIC to associations in default prevention actions. Advance payments and related interest amounted to $7,613,036 in 1981 and $9,781,922 in 1980.

8. Additional income and expense reflected in calendar year 1980 results from an October 1, 1979, reorganization of the Department of Examinations into the Federal Savings and Loan Insurance Corporation. This Department was reorganized into the Federal Home Loan Bank Board on October 1, 1980.

9. Income Capital Certificates (ICCs) are security instruments which are issued by an FSLIC-insured savings and loan association and purchased by the FSLIC. The FSLIC records the ICCs at cost. Annual income payments are not accrued but are recognized as income when collected. Annual redemption payments reduce the balance of ICCs when collected. No payments were due in 1981. The FSLIC issued Notes Payable to Insured Institutions to acquire the ICCs.

10. The Reduction in Securities was reported in 1980 as a credit under Funds Applied To. This item has been reclassified as a source in 1981 with the Totals adjusted accordingly.

11. From time to time in its default prevention activities, the FSLIC may guarantee repayment of FHLBank advances that were made to certain insured savings and loan associations. These guarantees are typically granted on a short-term basis, generally covering advances that are totally secured. The amount of these advances as of December 31, 1981, totaled $824.7 million. The FSLIC considers the likelihood of ever incurring liabilities under these arrangements to be very remote. In the unlikely event that it would be called upon to honor these guarantees, the FSLIC would have claim against any assets securing such advances, offsetting any losses that might be sustained.

12. Given the state of the economy and present condition of the industry, it is possible that FSLIC could sustain increased losses in subsequent accounting periods due to its default prevention actions. Because many of the causes for default are beyond management's control, the amount of these losses cannot be determined. However, the Corporation believes that its resources are sufficient to absorb any such losses over the foreseeable future.

FEDERAL HOME LOAN BANKS

OPINION ON FINANCIAL STATEMENTS

We have examined the combined statement of financial condition of the Federal Home Loan Banks as of December 31, 1981, and the related combined statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted government auditing standards. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements (pp. 13 through 17) present fairly the financial position of the Banks at December 31, 1981, and the results of their operations and changes in financial position for the year then ended in conformity with generally accepted accounting principles. We did not examine the financial statements for the year ended December 31, 1980, and accordingly, we do not express an opinion on them.

FEDERAL HOME LOAN BANKS

REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the combined financial statements of the Federal Home Loan Banks for the year ended December 31, 1981. Our opinion on them is on page 10. As part of our examination, we made a study of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. Our purpose was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Federal Home Loan Banks' financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal control taken as a whole.

For the purpose of this report, we studied and evaluated the significant accounting controls in the Federal Home Loan Banks, except for those which were excluded because it was not efficient to include them. It was judged more efficient to expand substantive audit tests than place reliance on controls in those areas not studied and evaluated.

The management of each of the 12 district banks is responsible for establishing and maintaining a system of internal accounting control. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods carries the risk that (1) procedures may become inadequate because of changes in condition or (2) the degree of compliance with the procedure may deteriorate.

The study and evaluation made for the limited purpose described in our first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Federal Home Loan Banks taken as a whole. However, our study and evaluation disclosed no material weaknesses.

FEDERAL HOME LOAN BANKS

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the combined financial statements of the Federal Home Loan Banks for the year ended December 31, 1981. Our opinion on them is on page 10. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We reviewed the provisions of laws and regulations to determine the material compliance requirements which may have a financial impact on the Bank's financial statements.

In our opinion, with regard to the transactions tested, the Federal Home Loan Banks complied with the provisions of the laws and regulations that could have materially affected the financial statements. For those transactions not tested, nothing came to our attention in connection with our examination that caused us to believe that the Federal Home Loan Banks were not in compliance with any of the provisions of applicable agreements, laws, and regulations.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF FINANCIAL CONDITION AT

DECEMBER 31, 1981 AND 1980

	1981	1980 a/
	(000 omitted)	
ASSETS		
CASH (note 2)	$ 395,302	$ 304,209
INVESTMENTS AT COST (note 3)	8,157,138	4,328,311
ADVANCES TO MEMBERS (note 4)	65,194,261	48,962,359
OTHER LOANS:		
Guaranteed by AID, net (note 5)	85,869	87,022
Other FHLBanks	50,000	65,000
Total other loans	135,869	152,022
ACCRUED INTEREST RECEIVABLE	546,732	358,738
BANK PREMISES AND EQUIPMENT	28,705	25,928
Less:		
Depreciation and amortization	(9,868)	(7,831)
Net book value	18,837	18,097
OTHER ASSETS:		
Investments in FHLMC (note 6)	150,000	150,000
Concessions and discounts on consolidated obligations--bonds	39,820	30,549
Deferred charges--FHLBB cost of quarters	37,484	39,207
Assessment--FHLBB operating expenses	-	-
Assessment--FHLBB capital expenditures	368	794
Other	4,522	1,789
Total other assets	232,194	222,339
Total assets	$74,680,333	$54,346,575

a/The General Accounting Office did not audit the Banks in 1980; however, they were audited individually by their own independent certified public accountants.

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CONDITION AT

DECEMBER 31, 1981 AND 1980 (cont.)

	1981	1980
	---(000 omitted)---	
LIABILITIES AND CAPITAL		
LIABILITIES:		
Deposits and borrowings:		
Members--time	$11,015,512	$ 9,171,060
Members--demand	898,228	902,716
Other FHLBanks	50,000	65,000
Other borrowings	221,162	8,243
Total deposits and borrowings	12,184,902	10,147,019
Accrued interest payable	1,459,439	838,288
Consolidated obligations (note 7):		
Bonds	46,310,700	34,310,700
Discount notes	11,258,582	6,701,696
Less:		
Passthroughs to FHLMC	(3,438,300)	(3,743,950)
FHLBank's participations	54,130,982	37,268,446
Other liabilities:		
Accounts payable	8,478	4,938
Accounts payable--FHLBB operating expenses	2,171	1,322
Other	93,670	57,547
Total other liabilities	104,319	63,807
Total liabilities	67,879,642	48,317,560
CONTINGENCIES AND COMMITMENTS (notes 8, 10, 11, and 12)		
CAPITAL:		
Capital stock outstanding (note 9)	5,827,107	5,160,408
Retained earnings:		
Legal reserve	794,317	686,781
Dividend stabilization reserve	32,305	35,880
Undivided profits	146,962	145,946
Total retained earnings	973,584	868,607
Total capital	6,800,691	6,029,015
Total liabilities and capital	$74,680,333	$54,346,575

The accompanying notes are an integral part of this financial statement. (See pp. 23 to 27.)

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FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF INCOME AND EXPENSE

FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

	1981	1980
	---(000 omitted)---	
INCOME:		
Interest on advances to members	$6,994,211	$4,480,967
Income from investments	942,212	622,097
Interest and fees on AID loans	7,263	7,074
Earned commitment fees	35,976	28,513
Income from NOW and DDA services	8,780	-
Other income	10,745	15,467
Total income	7,999,187	5,154,118
EXPENSES:		
Interest and other costs:		
Interest and concessions--consolidated obligations	5,673,774	3,377,455
Assessments--FHLBB:		
Operating expenses	8,792	7,293
Amortization of capital expenditures	363	362
Amortization of cost of quarters	1,782	1,782
Assessments--Office of Finance	4,235	3,220
Interest on deposits	1,685,841	1,289,519
Other interest	11,460	1,357
Total interest and other costs	7,386,247	4,680,988
Other operating expenses:		
Salaries and benefits	40,402	30,649
Fees and professional services	3,110	2,896
Travel expense	2,595	2,218
Telephone and transmission costs	2,851	1,456
Stationery and supplies	8,362	6,575
Cost of quarters	6,323	4,398
Depreciation--furniture and equipment	1,124	631
Equipment rental and expense	9,687	5,189
Other	3,224	2,517
Total other operating expenses	77,678	56,529
Total expenses	7,463,925	4,737,517
Net Income	$ 535,262	$ 416,601

The accompanying notes are an integral part of this financial statement. (See pp. 23 to 27.)

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FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

	1981	1980
	---(000 omitted)---	
FINANCIAL RESOURCES WERE PROVIDED FROM:		
Operations:		
Net income	$ 535,262	$ 416,601
Noncash charges/(credit) to income:		
Depreciation and amortization of fixed assets	2,170	1,326
Amortization of concessions on C/O bonds	19,326	13,667
Amortization of discount on C/O discount notes	1,258,439	624,381
Amortization of FHLBB assessments	2,149	2,145
Other	(203)	(203)
Total from operations	1,817,143	1,057,917
Net proceeds from issuance of C/O:		
Bonds	20,671,403	12,582,081
Discount notes	18,687,539	12,296,001
Advances repaid	37,709,130	20,459,912
Proceeds from sale of capital stock	718,896	389,531
Net deposits/(advances) between other FHLBanks	-	-
Increase/(decrease) in deposits	1,833,131	828,412
Increase/(decrease) in securities sold under agreements to repurchase	219,751	-
Increase/(decrease) in accrued interest payable	621,153	273,490
Increase/(decrease) in other liabilities	40,712	32,706
Total financial resources provided	$82,318,858	$56,920,050
FINANCIAL RESOURCES WERE USED FOR:		
Payments on maturing C/O:		
Bonds	$ 8,444,000	$ 7,000,000
Discount notes	15,343,445	11,623,619
Advances made	53,940,531	36,584,655
Redemption of capital stock	200,298	564,906
Dividends on capital stock	282,186	304,117
Net additions to bank premises and equipment	3,450	7,181
Increase/(decrease) in investments	3,828,822	634,949
Increase/(decrease) in accrued interest receivable	187,995	100,459
Increase/(decrease) in other assets	1,040	46,831
Increase/(decrease) in cash	91,091	53,332
Total financial resources used	$82,318,858	$56,920,050

Because of rounding, minor differences may occur in some totals. The accompanying notes are an integral part of this financial statement. (See pp. 23 to 27.)

FEDERAL HOME LOAN BANKS

COMBINED STATEMENT OF RETAINED EARNINGS ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1981 AND 1980

	1981	1980
	---(000 omitted)---	
LEGAL RESERVE		
Balance, January 1	$686,781	$603,107
Add: Statutory transfer of net income	107,536	83,672
Balance, December 31	$794,317	$686,781
DIVIDEND STABLIZATION RESERVE		
Balance, January 1	$ 35,880	$ 60,073
Add: Transfer from net income	15,794	31,234
Deduct: Dividends paid on capital stock	(19,369)	(55,428)
Balance, December 31	$ 32,305	$ 35,880
UNDIVIDED PROFITS		
Balance, January 1	$145,946	$279,645
Add: Net income	535,262	416,598
Subtotal	681,208	696,243
Deductions:		
Statutory transfer of net income	107,536	83,672
Dividends paid on capital stock	410,918	435,389
Transfer to dividend stabilization reserve	15,794	31,234
Total deductions	534,248	550,295
Balance, December 31	$146,962	$145,946

Because of rounding, minor differences may occur in some totals. The accompanying notes are an integral part of this financial statement. (See pp. 23 to 27.)

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FEDERAL HOME LOAN BANKS

SUPPORTING SCHEDULES

Federal Home Loan Bank System Financial Statements

Federal Home Loan Banks: Combined Statement of Condition, December 31, 1981, and December 31, 1980
(In thousands)

Statement of Condition	Combined		Boston		New York		Pittsburgh		Atlanta	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
ASSETS										
Cash (Note 2)	$395,302	$304,209	$4,071	$4,244	$12,155	$20,536	$34,409	$36,277	$8,239	$10,035
Investments at cost (Note 3)	8,157,136	4,328,311	275,736	95,082	1,075,791	526,778	147,407	295,192	937,955	443,821
Advances to members (Note 4)	65,194,261	48,962,859	1,228,549	1,170,877	5,980,214	4,536,343	1,983,836	1,871,740	9,516,824	6,480,304
Other loans:										
Guaranteed by AID, net (Note 5)	85,889	87,022	31,530	32,356	54,339	54,666	.....	.....	.....	.....
Other FHL Banks	50,000	65,000	.....	.....	50,000	50,000	.....	.....	.....	.....
Total other loans	135,889	152,022	31,530	32,356	104,339	104,666	.....	.....	.....	.....
Accrued interest receivable	548,732	358,736	13,566	11,915	70,027	44,796	20,825	15,175	5,199	3,125
Bank premises and equipment	28,705	25,928	389	373	2,621	2,134	661	626	1,895	1,903
Less: depreciation and amortization	(9,868)	(7,831)	(250)	(213)	(939)	(794)	(434)	(426)	(691)	(510)
Net book value	18,837	18,097	149	160	1,682	1,340	227	200	1,004	993
Other assets:										
Investment in FHLMC (Note 6)	150,000	150,000	7,350	7,350	17,550	17,550	9,150	9,150	21,300	21,300
Concessions and discount on COs—Bonds	39,820	30,549	759	559	4,094	2,950	1,010	936	4,338	2,999
Deferred charges—FHLBB cost of quarters	37,484	39,207	1,481	1,582	4,189	4,334	1,781	1,866	5,998	6,241
Assessment—FHLB operating expenses	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Assessment—FHLB capital expenditures	368	794	16	33	44	150	18	35	57	113
Other	4,522	1,789	159	61	426	136	144	152	294	197
Total other assets	232,194	222,339	9,775	9,585	26,303	24,810	12,103	12,151	31,945	30,820
Total assets	74,880,333	54,348,575	1,563,376	1,324,176	7,259,481	5,259,171	2,208,697	2,000,735	10,500,966	6,966,898
LIABILITIES AND CAPITAL										
Liabilities										
Deposits and borrowings:										
Members—time	$11,015,512	$9,171,060	$309,502	$378,412	$843,241	$958,522	$553,341	$616,088	$1,708,916	$1,311,468
Members—demand	888,228	902,716			25,061	28,361	72,907	101,994	1,883	86,212
Other FHL Banks	50,000	65,000	.....	.....	.....	.....	.....	.....	.....	.....
Other borrowings	221,162	8,243	.....	.....	.....	.....	.....	.....	92,869	.....
Total deposits and borrowings	12,184,902	10,147,019	309,502	378,412	868,302	986,883	626,248	718,082	1,803,268	1,397,680
Accrued interest payable	1,459,439	838,288	24,809	19,427	154,767	75,325	39,807	28,963	160,524	87,036
Consolidated obligations (COs) (Note 7):										
Bonds	46,310,700	34,310,700	797,950	638,950	7,808,000	6,521,000	1,096,000	909,000	4,805,000	3,176,000
Discount notes	11,258,582	6,701,686	178,350	58,000	944,902	582,709	177,249	85,888	2,936,323	1,521,615
Less: pass throughs to FHLMC	(3,438,300)	(3,743,950)	.....	.....	(3,360,000)	(3,640,000)	.....	.....	(58,300)	(103,950)
FHLB's participations	54,130,982	37,268,448	976,300	696,950	5,370,902	3,463,709	1,273,249	994,888	7,482,023	4,593,666
Other liabilities:										
Accounts payable	8,476	4,936	65	75	1,108	698	15	5	431	466
Accounts payable—FHLBB operating expenses	2,171	1,322	93	57	303	145	90	58	399	210
Other	93,670	57,547	60	100	6,488	49,521	230	878	42,964	684
Total other liabilities	104,319	63,807	218	232	7,899	50,364	335	941	43,754	1,372
Total liabilities	67,879,642	48,317,560	1,310,829	1,095,021	6,401,870	4,575,281	1,939,639	1,742,884	9,489,569	6,079,753
Capital										
Capital stock outstanding (Note 9)	5,827,197	5,160,408	227,530	212,261	748,495	584,692	222,790	211,921	883,883	770,011
Retained earnings:										
Legal reserve	784,317	686,781	22,089	21,494	94,028	80,358	39,275	37,214	106,284	93,907
Dividend stabilization reserve	32,305	35,880	.....	1,911	5,575	7,326	59	3,781	2,830	8,627
Undivided profits	148,982	145,946	2,958	3,492	11,513	11,513	6,934	6,935	18,000	18,000
Total retained earnings	973,584	868,607	25,017	26,897	111,116	99,198	46,268	47,930	127,714	119,134
Total capital	6,800,691	6,029,015	252,547	239,158	857,611	683,890	269,058	259,851	1,011,397	889,145
Total liabilities and capital	74,680,333	54,348,575	1,563,376	1,324,179	7,259,481	5,259,171	2,208,697	2,000,735	10,500,966	6,966,898
Contractual commitments for advances	3,180,093	2,013,234	73,225	.....	218,143	232,503	173,125	24,750	248,787	162,475

The General Accounting Office did not audit the Banks in 1980; however, they were audited individually by their own independent certified public accountants.

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Cincinnati		Indianapolis		Chicago		Des Moines		Little Rock		Topeka		San Francisco		Seattle	
1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
$6,473	$11,192	$7,556	$10,302	$9,695	$4,108	$58,989	$58,983	$5,711	$26,440	$7,833	$8,296	$222,797	$80,102	$18,374	$24,782
865,548	361,325	187,563	228,944	631,885	258,073	358,010	315,871	888,336	348,288	278,243	151,085	1,975,644	1,001,922	556,980	331,170
4,031,385	3,403,382	1,778,182	1,477,733	3,760,358	3,209,184	3,784,578	3,431,180	4,388,173	3,262,327	3,471,987	2,903,388	20,574,208	14,137,508	4,728,291	3,279,013
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5,000	.....	10,000	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5,000	.....	10,000	.....	.....
44,303	31,811	9,001	7,407	40,182	31,912	130	28	50,737	29,504	35,119	24,528	203,832	126,110	54,011	32,417
3,039	2,980	936	647	1,916	1,721	3,317	3,440	925	874	334	284	11,181	10,361	1,891	1,275
(1,964)	(1,709)	(233)	(154)	(897)	(990)	(1,804)	(1,331)	(448)	(312)	(91)	(60)	(1,585)	(1,111)	(742)	(521)
1,075	1,181	693	493	1,029	1,031	1,713	2,109	477	562	243	224	9,596	9,250	949	754
13,950	13,950	8,350	7,350	15,450	15,450	9,150	9,150	10,200	10,200	5,850	5,850	26,950	26,950	5,850	5,850
2,418	1,835	801	664	1,683	1,629	1,991	2,259	2,421	1,452	2,492	2,401	15,332	11,253	2,483	1,940
3,105	3,254	1,634	1,712	3,609	3,781	2,296	2,408	2,421	2,536	1,767	1,872	7,715	8,083	1,498	1,570
30	61	16	32	36	70	23	45	25	51	17	34	69	137	17	33
390	133	684	111	310	192	1,191	120	233	56	422	304	226	227	43	99
19,893	19,233	10,485	9,869	21,098	21,122	14,651	13,980	15,300	14,295	10,588	10,481	50,192	46,950	9,891	9,483
4,967,557	3,828,124	1,973,480	1,734,748	4,464,235	3,525,430	4,218,071	3,832,051	5,319,734	3,681,218	3,801,983	3,102,942	23,036,267	15,411,442	5,388,476	3,677,839
$906,337	$823,433	$204,093	$319,238	$804,267	$724,560	$686,883	$586,863	$592,889	$638,545	$237,860	$280,200	$3,116,375	$1,889,775	$1,071,998	$832,948
24,001	33,866	103,001	78,595	(6)	48,218	271,498	167,960	112,922	84,310	54,276	42,639	188,836	187,885	46,049	44,776
		50,000	50,000		10,000								5,000		
104,224								22,858			8,090			1,411	243
1,034,562	857,366	357,094	447,833	804,261	782,778	938,191	764,723	728,669	722,855	292,136	330,839	3,303,211	2,082,870	1,119,458	877,966
103,043	50,929	27,754	24,626	75,564	53,205	69,585	57,683	99,308	42,515	90,892	58,580	515,187	287,258	98,201	54,732
2,799,000	1,977,000	881,000	776,000	2,143,000	1,870,000	2,210,000	2,175,000	2,864,000	1,713,000	2,765,000	2,237,000	15,801,750	10,329,750	2,562,000	1,998,000
518,336	439,761	442,436	219,571	873,657	285,083	617,782	474,514	1,143,525	787,631	325,520	188,703	1,873,615	1,407,814	1,227,897	883,627
3,317,336	2,415,761	1,323,436	995,571	3,016,657	2,155,083	2,827,782	2,649,514	4,007,525	2,500,631	3,090,520	2,423,703	17,675,365	11,737,564	3,789,897	2,881,627
183	90	617	326	94	197	80	206	15	33	1,880	1,010	4,023	1,802	7	28
173	110	99	62	192	123	131	82	183	90	80	23	488	291		65
654	451	954	33	1,994	376	809	124	3,546	1,986	1,469	208	30,679	2,228	3,824	948
990	651	1,670	421	2,280	696	1,020	412	3,724	2,115	3,208	1,241	35,190	4,321	3,831	1,041
4,455,931	3,324,830	1,890,154	1,468,451	3,888,752	2,991,742	3,836,588	3,472,332	4,839,224	3,268,116	3,478,756	2,814,372	21,528,953	14,111,813	5,011,377	3,385,365
422,845	423,888	244,602	226,941	470,973	449,383	322,834	303,391	410,094	353,764	272,072	247,881	1,304,923	1,129,834	298,466	246,600
69,371	61,566	33,884	32,780	82,340	72,171	47,872	44,134	96,159	48,015	38,447	30,721	161,474	132,448	41,345	31,983
		810	2,337	36		777	2,194	4,258	1,321	5,520	1,000	6,263	2,883	8,177	4,460
19,610	18,059	4,250	4,250	12,134	12,134	10,000	10,000	10,000	10,000	9,198	9,198	34,854	34,854	9,111	9,111
88,981	79,625	38,724	39,358	94,510	84,305	58,649	56,326	70,416	59,336	53,165	40,919	202,391	169,985	58,633	45,584
511,826	503,494	283,326	266,297	565,483	533,688	381,483	359,719	480,510	413,100	325,237	288,570	1,507,314	1,299,829	355,099	292,274
4,967,557	3,828,124	1,973,480	1,734,748	4,464,235	3,525,430	4,218,071	3,832,051	5,319,734	3,681,218	3,801,983	3,102,942	23,036,267	15,411,442	5,388,476	3,677,839
287,371	202,883	71,600	1,900	250,814	142,531	342,126	141,198	345,836	163,700	188,647	114,748	1,038,784	817,180	72,865	9,570

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Federal Home Loan Banks: Combined Statement of Income for the Twelve Months Ending December 31, 1981 and December 31, 1980
(In thousands)

Statement of Income	Combined		Boston		New York		Pittsburgh		Atlanta	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
INCOME										
Interest on advances to members	$6,994,211	$4,490,987	$133,225	$110,315	$678,509	$413,015	$207,226	$154,719	$1,017,439	$585,394
Income from investments	942,212	622,097	31,834	24,983	99,205	73,720	45,840	40,489	119,933	68,101
Interest and fees on AID loans	7,283	7,074	2,485	2,551	4,778	4,523	...	...	...	...
Earned commitment fees	35,976	28,513	298	200	6,786	4,531	24	3	1,714	1,918
Income from NOW and DDA services	6,780	...	84	...	117	...	40	...	1,186	...
Other income	10,745	15,467	3	5	5,717	2,264	217	1,989	1,145	676
Total income	7,999,187	5,154,118	167,727	138,054	795,112	498,073	253,347	207,200	1,141,417	675,999
EXPENSES										
Interest and other costs:										
Interest and concessions—consolidated obligations	5,873,774	3,377,486	107,841	81,211	572,854	307,898	140,013	101,735	799,472	433,173
Assessments—FHLBB:										
Operating expenses	8,782	7,293	368	288	1,083	812	363	318	1,395	1,110
Amortization of capital expenditures	383	362	16	16	43	43	18	17	57	57
Amortization of cost of quarters	1,782	1,782	71	73	199	199	88	88	284	283
Assessments—Office of Finance	4,235	3,220	254	190	465	313	233	205	501	404
Interest on deposits	1,986,841	1,269,519	58,260	52,807	141,737	134,990	98,198	80,883	257,788	183,563
Other interest	11,480	1,367	9	11	1,835	1,046	...	...	1,742	31
Total interest and other costs	7,386,247	4,660,998	164,839	134,594	718,213	434,986	238,911	183,254	1,061,220	618,621
Other operating expenses:										
Salaries and benefits	40,402	39,648	1,411	1,192	4,498	3,968	2,010	1,982	4,534	3,257
Fees and professional services	3,110	2,886	142	124	298	248	174	111	330	288
Travel expense	2,595	2,218	134	115	243	209	154	139	321	238
Telephone and transmission costs	2,851	1,458	53	44	148	104	104	85	448	200
Stationery and supplies	8,382	6,575	102	80	936	1,088	663	574	796	580
Cost of quarters	6,323	4,368	288	247	802	649	301	263	618	500
Depreciation—furniture and equipment	1,124	631	27	38	59	57	43	41	157	97
Equipment rental and expense	8,687	5,189	208	99	599	536	578	529	810	373
Other	3,224	2,517	116	125	1,005	360	188	127	310	249
Total other operating expenses	77,878	58,529	2,481	2,052	8,558	7,119	4,131	3,851	8,310	5,880
Total expenses	7,463,925	4,737,517	167,320	136,646	726,771	442,107	243,042	187,105	1,069,530	624,501
Net income	535,262	416,601	407	1,408	68,341	55,966	10,305	20,095	71,887	51,498

Federal Home Loan Banks: Notes to Financial Statements, December 31, 1981 and 1980.

Organization and Related Agencies

The twelve District Federal Home Loan Banks (FHLBanks), together with their member institutions, comprise the FHLBank System. The FHLBank System is designed to promote homeownership through the extension of credit to savings and home financing institutions. Member institutions include all federally chartered savings and loan associations, all federally chartered mutual savings banks, and all institutions insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Membership is also available to qualifying institutions, such as state-chartered non-FSLIC insured savings associations and mutual savings banks.

The FHLBanks are instrumentalities of the Federal government; they are owned by and serve as central credit banks for member institutions. A principal source of funds for the FHLBanks is the sale to the public of debt instruments (consolidated obligations) which are the joint and several obligations of all FHLBanks. Other funds are provided by issuance of capital stock, all of which are owned by the Banks' members, and member deposits.

The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Board) which is an independent Federal agency in the executive branch of government. The Board is the chartering and regulatory authority for Federal savings and loan associations and Federal mutual savings banks. The Board governs the Federal Home Loan Mortgage Corporation (Mortgage Corporation), which is a secondary mortgage market facility. The principal function of the Mortgage Corporation, which is owned by the FHLBanks, is to promote the flow of capital into the housing markets by establishing an active secondary market in residential mortgages. Further, the Board governs the insurance of accounts in savings and loan associations and Federal mutual savings banks through the FSLIC. The Board expenses are met through assessments to the FHLBanks and the FSLIC and assessments to member institutions for examinations.

1. Summary of Significant Accounting Policies

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

(a) Investments—Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on sales of securities are included in income from investments.

(b) Advances to Federal Home Loan Mortgage Corporation—Proceeds from certain consolidated obligations have been advanced to the Mortgage Corporation at the same interest rates and maturities as the related consolidated obligations. The Mortgage Corporation is effectively reimbursing the FHLBanks for interest; accordingly, the advances, related consolidated obligations, interest expense, and interest income have been offset and are not reflected in the accompanying financial statements.

(c) Bank premises, furniture and equipment, and leasehold improvements—These assets are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the property or life of the lease.

(d) Federal Home Loan Bank Board Assessments—The FHLBanks expense their *pro rata* share of the Board assessment for operating expenses during the year in which the assessment is levied. The Board has assessed the FHLBanks for its portion of the cost of the Board's office building in Washington, D.C. These payments are treated as a deferred charge and amortization is computed using the straight-line method for a period of twenty-five years.

The Board also assesses the FHLBanks for their portion of the cost of

The General Accounting Office did not audit the Banks in 1980; however, they were audited individually by their own independent certified public accountants.

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Cincinnati		Indianapolis		Chicago		Des Moines		Little Rock		Topeka		San Francisco		Seattle	
1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
$438,579	$327,521	$193,724	$138,709	$409,562	$322,916	$400,949	$324,048	$464,959	$298,832	$380,470	$253,219	$2,172,737	$1,226,895	$508,832	$315,874
87,600	49,340	26,880	24,574	92,242	58,381	59,271	31,285	72,334	44,119	33,549	19,626	205,285	132,959	68,439	34,520
2,448	2,289	851	505	448	1,282	4,236	3,119	4,462	2,821	1,871	1,889	11,126	9,126	1,914	1,020
714	...	1,369	...	401	...	822	...	1,085	...	436	...	2,375	...	171	...
511	168	453	346	461	350	86	100	552	579	115	6,534	1,042	2,277	441	159
529,852	379,318	213,277	164,134	503,114	382,929	465,366	358,552	543,372	346,151	416,241	281,278	2,392,565	1,371,057	577,797	351,373
344,298	230,291	148,650	95,229	312,793	220,654	330,551	248,012	401,556	223,719	332,690	218,415	1,788,697	981,844	394,359	255,284
687	582	386	321	775	655	522	485	636	526	422	328	1,869	1,509	277	381
30	30	16	16	34	34	23	23	25	25	17	17	68	68	16	16
148	140	78	78	171	171	109	109	115	115	85	85	367	366	72	72
347	266	265	213	378	275	252	178	309	285	243	196	885	507	313	208
136,100	108,836	54,815	51,695	131,111	115,513	107,940	85,885	93,348	85,133	41,328	38,915	435,804	294,172	132,413	68,015
2,027	...	...	2	1,328	...	57	...	676	...	86	5	3,584	42	136	220
482,837	340,155	204,219	148,954	446,590	337,302	439,464	334,672	496,683	309,783	374,871	257,961	2,231,034	1,258,508	527,586	324,196
4,136	3,337	2,380	1,680	3,157	2,348	3,107	1,946	3,388	2,298	1,302	938	8,783	6,513	1,718	1,282
155	123	117	124	242	211	202	117	179	200	79	85	988	930	238	237
238	224	133	133	158	185	217	189	330	257	138	101	355	367	176	144
485	188	152	50	158	93	273	111	358	225	93	58	448	223	153	75
1,333	964	283	280	480	333	877	739	492	621	558	343	1,462	858	399	215
661	515	441	285	560	404	844	453	321	211	181	105	1,029	509	279	257
79	58	58	35	112	55	113	63	97	37	22	11	189	80	168	67
937	485	951	349	802	488	1,444	225	645	262	305	314	2,485	1,495	155	51
189	194	107	156	210	238	135	129	186	136	56	71	685	590	117	142
8,190	6,088	4,582	3,193	5,679	4,333	7,212	3,972	5,996	4,247	2,736	2,026	18,402	11,305	3,401	2,485
490,827	346,221	208,801	150,147	452,269	341,635	446,676	338,644	502,659	314,030	377,607	259,987	2,247,436	1,269,813	530,987	326,681
39,025	33,097	4,476	13,987	50,845	41,294	18,690	19,908	40,713	32,121	38,634	21,291	145,129	101,244	46,810	24,892

capital expenditures for furniture, equipment, and furnishings for the Board's building. Payments against these assessments are treated as a deferred charge and amortization is computed using the straight-line method for a five-year period.

(a) Concessions on consolidated obligations—The amounts allowed dealers in connection with the sale of consolidated obligation bonds are deferred and amortized on the straight-line method to the maturity of the obligations. However, amounts applicable to the sale of consolidated obligation discount notes are charged directly to expense as incurred because of their short-term maturities.

(f) Unearned commitment fees—Advance commitment fees are initially set up as a deferred credit when received. Non-refundable fees of less than $1,000 are taken into income immediately and fees of $1,000 or more are amortized to income over the period of the commitment on a straight-line basis. Refundable fees are deferred until the commitment expires or the advance is made.

2. Cash Balances

Compensating balances—The FHLBanks have agreed to maintain average collected cash balances with various commercial banks in consideration for certain services. These arrangements are informal and there are no legal restrictions as to the withdrawal of funds. The average compensating balances were approximately $28,637,500 and $26,685,000 at December 31, 1981 and 1980, respectively.

Passthrough Deposit Reserves—*The Depository Institutions Deregulation and Monetary Control Act of 1980* authorizes FHLBanks to act as passthrough correspondents for member institutions required to deposit reserves with the Federal Reserve. The amount shown as cash includes $40,513,500 and $2,777,430 at December 31, 1981 and 1980, respectively, of passthrough reserves deposited with Federal Reserve offices. Member deposit reserves are included under Other Liabilities.

3. Investments

A comparison of the book value and market value follows:

	December 31, 1981	
	Book Value	Market Value
	(in thousands)	
U.S. Treasury obligations	$ 681,597	$ 668,677
U.S. Gov't agencies	20,000	18,662
Federal funds sold	4,393,400	4,393,400
Term funds sold	388,750	388,750
Bankers acceptances	460,227	459,670
Certificates of Deposit	447,024	445,965
Securities held under resale agreement	105,039	105,039
Participation in the FHLBanks' Consolidated Securities Fund	1,661,101	1,658,785
	$8,157,138	$8,138,948

	December 31, 1980	
	Book Value	Market Value
	(in thousands)	
U.S. Treasury obligations	$ 671,181	$ 640,847
U.S. Gov't. agencies	24,977	23,301
Federal funds sold	2,147,400	2,147,400
Term funds sold	16,000	16,000
Bankers acceptances	277,150	276,115
Certificates of Deposit	233,842	233,285
Securities held under resale agreement	80,000	80,000
Participation in the FHLBanks' Consolidated Securities Fund	877,763	871,214
	$4,328,313	$4,287,962

FHLBanks' Consolidated Securities Fund (Fund) was established by the Board to offer a centralized portfolio management system for

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Federal Home Loan Banks: Combined Statement of Changes in Financial Position for the Twelve Months Ending December 31, 1981 and December 31, 1980

(in thousands)

	Combined		Boston		New York		Pittsburgh		Atlanta	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
FINANCIAL RESOURCES PROVIDED FROM:										
Operations:										
Net income	$535,262	$418,601	$407	$1,408	$88,341	$55,988	$10,305	$20,095	$71,887	$51,498
Noncash charges(credit) to income:										
Depreciation and amortization of fixed assets	2,170	1,328	44	39	144	141	58	57	202	117
Amortization of concessions on CO bonds	19,328	13,867	382	275	2,036	1,337	506	438	2,037	1,538
Amortization of discount on CO discount notes	1,258,439	634,381	25,893	25,919	158,612	58,912	26,895	16,486	159,829	30,842
Amortization of FHLBB assessments	2,149	2,145	88	89	241	239	103	103	340	340
Other	(203)	(203)	(4)	(1)	....	....	(8)	2	....	....
Total from operations	1,817,143	1,057,917	26,793	27,729	229,374	113,595	37,881	37,181	234,294	84,136
Net proceeds from issuance of COs:										
Bonds	20,671,403	12,382,081	405,438	326,538	2,543,520	1,084,778	409,422	403,350	2,431,506	1,114,404
Discount notes	16,897,539	12,296,001	368,251	286,565	1,661,581	878,363	294,317	154,501	4,766,679	2,753,482
Advances repaid	37,709,130	29,459,912	1,086,318	730,399	1,835,904	1,809,677	1,333,635	1,639,559	1,574,438	1,562,251
Proceeds from sale of capital stock	718,898	389,531	24,153	37,884	172,171	103,823	17,057	11,984	117,645	65,273
Net deposits,(advances) between other FHLBanks						(50,000)				
Increase (decrease) in deposits	1,833,131	826,412	(66,910)	(10,374)	(117,581)	124,808	(91,844)	204,701	312,918	243,021
Increase (decrease) in securities sold under agreements to repurchase	219,751	....	....	....	....	....	....	....	92,889	....
Increase (decrease) in accrued interest payable	821,153	273,490	5,382	8,273	79,442	21,685	12,843	7,114	73,480	26,111
Increase (decrease) in other liabilities	40,712	32,706	(13)	(1,047)	(42,485)	40,853	(608)	(880)	42,384	857
Total	82,318,858	58,920,050	1,859,412	1,415,997	6,181,946	4,107,383	2,012,685	2,457,510	9,846,112	5,839,334
FINANCIAL RESOURCES USED FOR:										
Payments on maturing COs:										
Bonds	8,440,000	7,000,000	237,000	128,000	1,002,000	499,000	223,000	347,000	1,008,000	825,000
Discount notes	15,343,445	11,823,819	273,795	498,050	1,478,000	761,450	229,850	270,200	3,467,150	2,373,700
Advances made	53,940,531	38,584,656	1,155,980	751,285	3,088,875	2,887,705	1,855,731	1,853,472	4,610,758	2,573,634
Redemption of capital stock	200,298	584,908	8,884	9,214	10,368	59,123	8,188	21,487	3,974	28,808
Cash dividends on capital stock	282,186	304,117	2,287	2,380	58,423	57,736	11,987	23,083	63,307	62,704
Net additions to Bank premises and equipment	3,450	7,181	33	41	488	49	80	81	215	632
Increase (decrease) in investments	3,838,822	634,949	180,873	20,962	548,983	32,788	(116,666)	129,772	494,334	(30,030)
Increase (decrease) in accrued interest receivable	187,986	100,459	1,851	4,083	25,231	15,093	5,450	1,130	2,074	389
Increase (decrease) in other assets	1,040	46,831	(728)	1,526	(37)	3,868	(17)	3,052	96	7,284
Increase (decrease) in cash	91,091	53,332	(173)	456	(8,383)	10,772	(868)	8,253	(1,796)	(2,947)
Total	82,318,858	58,920,050	1,859,412	1,415,997	6,181,946	4,107,383	2,012,685	2,457,510	9,846,112	5,839,334

Note: Because of rounding, minor differences may occur in some totals.

securities of the FHLBanks. The Fund is managed by the Office of Finance of the FHLBanks and invests primarily in short-term money market instruments.

4. Advances to Members

At December 31, 1981 and 1980, the FHLBanks had advances outstanding to members at interest rates ranging from 6.00 to 21.75 percent and from 5.75 to 21.75 percent respectively, with maturities and average rates as follows:

	December 31, 1981	
Years of Maturity	Amount (in thousands)	Weighted Average Interest Rate (percent)
1982	$31,904,883	13.39
1983	15,088,440	11.97
1984	9,521,150	12.41
1985	4,888,514	12.16
1986	2,417,500	13.85
1987-1990	1,305,994	10.92
	$65,194,281	12.79

	December 31, 1980	
Years of Maturity	Amount (in thousands)	Weighted Average Interest Rate (percent)
1981	$20,139,473	12.72
1982	9,894,308	9.92
1983	8,940,813	10.12
1984	5,138,360	10.15
1985	3,266,834	10.72
1986-1989	1,581,273	9.80
	$48,962,859	11.18

Outstanding advances aggregating $63,248,722,000 at December 31, 1981, and $45,533,090,000 at December 31, 1980, were collateralized by pledged investment securities and first mortgage loans. The capital stock of the FHLBanks owned by borrowing members is also pledged as additional collateral for outstanding advances. FHLBank regulations permit a borrowing member to physically retain mortgage collateral assigned to a FHLBank, and in such circumstances, the member executes a written security agreement which describes the type of collateral and agrees to hold such collateral for the benefit and subject to the direction and control of the FHLBanks.

The FHLBanks are participating in a Community Investment Fund, a five-year advances program initiated in June 1978. The program provides funds to members meeting eligibility criteria for active involvement in preserving and revitalizing older communities. As of December 31, 1981, advances of $4,866,282,000 were outstanding under this program for an average maturity of 2 years at rates ranging from 7.35 percent to 17.15 percent. These rates are ½ of 1 percent below the estimated cost of issuing consolidated obligations of comparable maturities at the time the commitments to advance funds were made. The net interest cost of this program, if consolidated obligations had actually been issued at the time the commitments to advance funds were made, would have amounted to approximately $25,972,000 for 1981 and $20,802,013 for 1980.

5. Loans Guaranteed by the Agency for International Development

The Agency for International Development (AID) was established by the *Foreign Assistance Act of 1961*, as amended. Under Sections 221 and 222 of the *Act*, AID issues guarantees backed by the full faith and credit of the United States of America to eligible U.S. investors insuring against loss of investments, including unpaid accrued interest, in self-liquidating housing projects. The FHLBanks qualify as eligible investors.

Under contracts of guaranty, the FHLBanks may, without the approval of AID, sell participating interests to members of any FHLBank. The out-

The General Accounting Office did not audit the Banks in 1980; however, they were audited individually by their own independent certified public accountants.

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Cincinnati		Indianapolis		Chicago		Des Moines		Little Rock		Topeka		San Francisco		Seattle	
1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
$39,025	$33,097	$4,478	$13,987	$50,845	$41,294	$18,890	$19,908	$40,713	$32,121	$38,634	$21,291	$145,129	$101,244	$46,810	$24,692
255	207	88	59	222	120	283	153	136	66	33	18	485	230	220	119
1,221	965	415	360	1,020	896	1,091	997	1,231	860	1,389	974	6,913	4,091	1,122	916
64,117	48,818	57,784	24,864	88,788	49,497	91,247	57,284	126,009	64,709	38,815	34,612	273,860	138,810	146,591	77,031
178	178	95	94	205	205	132	132	141	140	102	102	436	435	88	88
....	....	....	....	(197)	(213)	....	....	....	....	....	....	1	8	....	1
104,796	83,285	62,861	39,384	140,883	91,709	111,443	78,474	168,230	97,893	78,953	56,997	426,824	244,618	194,831	102,847
1,283,196	541,192	378,445	251,848	773,927	549,235	578,177	839,709	1,800,800	414,388	1,059,539	1,073,424	8,016,008	5,499,131	1,191,335	504,294
616,507	968,724	773,661	530,308	1,404,356	582,494	1,001,921	998,888	1,733,585	1,006,756	553,601	494,117	3,245,491	2,490,208	2,047,589	1,103,588
1,100,710	1,247,759	387,626	517,752	1,399,956	1,381,045	2,049,947	2,278,873	3,809,100	2,396,071	492,422	576,872	21,174,587	14,039,418	1,862,487	1,290,436
15,237	8,826	17,769	1,105	27,848	18,617	30,769	8,473	57,913	21,993	12,130	14,045	167,146	75,941	59,358	23,585
			50,000	(10,000)	10,000					5,000	87,800	5,000	(97,800)		
73,049	175,710	(90,739)	6,404	31,483	124,522	173,467	95,522	(17,044)	(44,215)	(38,703)	(28,788)	1,225,542	(222,222)	441,493	159,522
104,224	....	....	....	....	....	....	....	22,656	....	....	....	....	....	....	....
52,114	9,056	3,128	4,492	22,349	4,264	11,914	16,988	56,791	2,573	32,303	23,266	227,929	134,271	43,489	15,397
339	176	1,449	115	1,781	(13,226)	607	(53)	1,809	1,711	1,988	861	30,869	2,731	2,790	808
3,550,172	3,034,730	1,534,220	1,401,188	3,782,583	2,728,750	3,958,245	4,312,832	7,233,542	3,957,170	2,197,213	2,298,414	34,519,396	22,165,297	5,843,332	3,200,447
463,000	568,000	294,000	238,000	502,000	636,000	544,000	568,000	452,000	521,000	533,000	641,000	2,555,000	1,805,000	629,000	418,000
801,050	931,900	608,600	488,050	904,550	797,750	949,900	1,034,900	1,503,700	830,400	453,600	647,050	3,053,350	2,090,400	1,619,900	899,789
1,728,592	1,441,848	686,075	558,575	1,941,128	1,233,256	2,403,348	2,517,124	4,705,948	2,640,933	1,061,040	671,965	27,611,285	18,051,254	3,309,765	1,623,608
25,480	47,404	103	1,213	8,258	28,229	11,326	80,318	1,283	31,048	14,076	54,015	104,771	165,202	7,582	58,845
20,850	79	5,108	21,807	40,840	43,851	18,398	26,400	29,633	40,259	21	33	20	31	35,761	25,754
149	646	288	414	220	890	427	1,191	252	297	53	169	832	2,223	415	382
504,222	40,332	(61,381)	87,084	373,811	(11,980)	42,137	80,892	540,048	(134,544)	125,179	93,442	973,722	173,870	225,790	172,341
12,491	5,891	1,594	86	8,271	5,159	103	(345)	21,232	5,849	10,591	4,817	77,723	49,076	21,584	9,252
257	4,644	574	2,410	118	5,180	532	2,516	177	3,405	117	1,955	(2)	9,192	(47)	2,021
(5,719)	5,988	(2,744)	5,547	5,587	(9,605)	(9,885)	21,836	(20,729)	18,524	(484)	(18,032)	142,695	20,049	(8,415)	(9,509)
3,550,172	3,034,730	1,534,220	1,401,188	3,782,583	2,728,750	3,958,245	4,312,832	7,233,542	3,957,170	2,197,213	2,298,414	34,519,396	22,166,297	5,843,332	3,200,447

standing loan balances are reported net of participations sold totaling $373,545,000 and $379,651,000 at December 31, 1981 and 1980, respectively. The December 31, 1981, loan balances mature between 1989 and 2008.

The FHLBanks receive service fees for these loans, against which direct expenses associated with the financing arrangements are netted. The balance is deferred and amortized into income at 1 percent of the unamortized balance per month.

6. Investment in the Federal Home Loan Mortgage Corporation

The investment in the Mortgage Corporation is stated at cost and consists of 100,000 shares of non-voting capital stock and a $50 million subordinated capital debenture, due June 20, 1987. The shares of capital stock represent 100 percent of the capital stock outstanding, and had an underlying book value of approximately $250,130,000 and $221,226,000 at December 31, 1981 and 1980, respectively. On December 31, 1981, the Mortgage Corporation paid a $2 million dividend. On June 20, 1980 a $50 million dividend was paid to the Bank on its investment in the Mortgage Corporation capital stock and the Bank purchased a subordinated capital debenture of the same amount. The subordinated capital debenture issued on June 20, 1980, bears an interest rate of 11.50 percent per annum, payable semiannually; may not be sold, transferred, exchanged or pledged without the express written consent of the Mortgage Corporation; is subordinated in right of payment to the prior payment in full of all other obligations and indebtedness of the Mortgage Corporation; and, may be redeemed in whole or in part on or after June 20, 1985, at specified redemption prices at the option of the Mortgage Corporation.

7. Consolidated Obligations

Consolidated FHLBank obligations are the joint and several obligations of all twelve FHLBanks. The outstanding obligations of the FHLBanks, including the passthroughs to the Mortgage Corporation (see Note 1), at December 31, 1981 and 1980 were $57,569,282,000 and $41,012,396,000, respectively.

Regulations require the FHLBanks to maintain in the aggregate, unpledged qualifying assets in an amount equal to the consolidated obligations outstanding. "Qualifying assets" are defined as cash, obligations of or fully guaranteed by the United States, secured advances, and federally insured or guaranteed mortgages. The FHLBanks were in compliance with this requirement at December 31, 1981 and 1980.

The following is a summary of the FHLBank's participation in consolidated obligations (thousands of dollars):

	December 31, 1981		
Years of Maturity	Range of Coupon Rates	Bonds Weighted Average Coupon Rate	Outstanding
1982	7.45–17.05	12.75	$14,560,000
1983	7.30–15.55	12.24	8,160,700
1984	7.38–16.40	12.84	10,150,000
1985	7.38–14.55	11.58	4,710,000
1986	9.55–16.40	14.40	3,850,000
1987–1991	7.80–11.10	9.47	1,700,000
		12.56	$42,930,700

	Discount Notes	
	Book Value	Par Value
Due within one year	$11,200,282	$11,700,650

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Federal Home Loan Banks: Combined Statement of Retained Earnings Accounts for the Years Ending December 31, 1981 and December 31, 1980

(In thousands)

Statement of Income	Combined		Boston		New York		Pittsburgh		Atlanta	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
LEGAL RESERVES										
Balance, January 1	$686,781	$603,107	$21,494	$20,860	$80,359	$69,166	$37,214	$33,195	$93,907	$83,607
Add: Statutory transfer of net income	107,536	83,672	585	634	13,669	11,193	2,061	4,019	14,377	10,300
Balance, December 31	794,317	686,781	22,059	21,494	94,028	80,359	39,275	37,214	108,284	93,907
DIVIDEND STABILIZATION RESERVE										
Balance, January 1	36,880	60,073	1,911	25	7,326	8,775	3,781	3,854	8,827	13,533
Add: Transfer from net income	15,794	31,234		1,886		7,326		3,781	2,420	8,827
Subtotal	51,674	91,307	1,911	1,911	7,326	16,101	3,781	7,635	11,047	22,160
Deduction: Dividend paid on capital stock	19,369	55,426	1,911	....	1,751	8,775	3,722	3,854	8,217	13,533
Balance, December 31	32,305	35,880	....	1,911	5,575	7,326	59	3,781	2,830	8,827
UNDIVIDED PROFITS										
Balance, January 1	145,948	279,645	3,492	4,984	11,513	23,027	6,935	13,869	16,800	33,200
Add: Net Income	535,262	418,598	407	1,408	68,341	56,966	10,305	20,095	71,887	51,498
Subtotal	681,209	698,243	3,899	6,392	79,854	79,993	17,240	33,964	88,687	84,698
Deduction:										
Statutory transfer of net income	107,536	83,672	585	634	13,669	11,193	2,061	4,019	14,377	10,300
Dividend paid on capital stock	410,918	435,389	376	2,380	54,672	48,981	8,245	19,229	55,090	48,171
Transfer to dividend stabilization reserve	15,794	31,234	....	1,886		7,326		3,781	2,420	8,827
Total deductions	534,248	550,295	941	4,900	68,341	67,480	10,306	27,029	71,837	68,008
Balance, December 31	146,962	145,948	2,958	3,492	11,513	11,513	6,934	6,935	16,800	16,800

Note: Because of rounding, minor differences may occur in some totals.

	December 31, 1980		
Years of Maturity	Range of Coupon Rates	Bonds Weighted Average Coupon Rate	Outstanding
1981	6.60–15.86	11.48	$8,440,000
1982	7.45–13.18	10.22	8,360,000
1983	7.30–14.05	10.26	4,460,700
1984	7.40–11.80	9.47	3,850,000
1985	7.37–12.85	10.25	3,110,000
1986–1990	7.80–11.34	9.93	2,450,000
		10.46	$30,670,700

	Discount Notes	
	Book Value	Par Value
Due within one year	$8,597,748	$8,842,730

The FHLBanks' participation, as shown above, is reported net of advances to the Mortgage Corporation in the form of passthroughs of the proceeds of certain consolidated obligations.

The following is a summary of the passthroughs (thousands of dollars):

	December 31, 1981		
Years of Maturity	Range of Coupon Rates	Bonds Weighted Average Coupon Rate	Outstanding
1982	8.63–11.90	10.62	$490,000
1983	9.30–14.05	11.87	600,000
1984	8.75–13.85	10.37	500,000
1985	7.38– 9.35	8.27	640,000
1986	9.55–11.30	9.90	250,000
1987–1997	7.38–11.10	8.37	900,000
		9.71	$3,380,000

	Discount Notes	
	Book Value	Par Value
Due within one year	$58,575	$58,300

	December 31, 1980		
Years of Maturity	Range of Coupon Rates	Bonds Weighted Average Coupon Rate	Outstanding
1981	8.85	8.85	$360,000
1982	8.62–11.90	10.62	490,000
1983	9.30–14.05	11.87	600,000
1984	8.75–11.75	9.50	400,000
1985	7.37– 9.35	8.27	640,000
1986–1997	7.37–11.30	8.70	1,150,000
		9.49	$3,640,000

	Discount Notes	
	Book Value	Par Value
Due within one year	$101,552	$103,950

8. Borrowings from the U.S. Treasury

Section 11(i) of the *Federal Home Loan Bank Act* authorizes the Secretary of the Treasury, in his discretion, to extend credit to the FHLBanks aggregating not more than $4 billion; the terms, conditions, and interest rate to be determined by the Secretary. There were no outstanding borrowings from the U.S. Treasury at December 31, 1981 or 1980.

The General Accounting Office did not audit the Banks in 1982; however, they were audited individually by their own independent certified public accountants.

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Cincinnati		Indianapolis		Chicago		Des Moines		Little Rock		Topeka		San Francisco		Seattle	
1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
$61,566	$54,946	$32,789	$29,972	$72,171	$63,912	$44,134	$40,153	$48,015	$41,591	$30,721	$26,462	$132,448	$112,199	$31,982	$27,044
7,805	6,620	995	2,797	10,169	8,259	3,738	3,981	8,143	6,424	7,726	4,258	29,026	20,249	9,383	4,938
69,371	61,566	33,684	32,769	82,340	72,171	47,872	44,134	56,158	48,015	38,447	30,720	161,474	132,448	41,345	31,982
....	6,053	2,337	8,705	....	....	2,194	2,887	1,321	5,883	1,000	361	2,893	8,837	4,490	1,380
....	....	....	....	36	....	....	....	2,937	1,321	4,520	910	4,194	2,893	1,887	4,490
....	6,053	2,337	8,705	36	....	2,194	2,887	4,258	7,204	5,520	1,271	7,087	11,730	6,177	5,870
....	6,053	1,527	6,368	....	....	1,417	474	....	5,883	....	271	824	8,837	....	1,380
....	....	810	2,337	36	....	777	2,194	4,258	1,321	5,520	1,000	8,263	2,893	6,177	4,490
18,059	25,189	4,250	8,500	12,134	22,950	10,000	20,000	10,000	20,000	9,198	18,395	34,654	89,309	9,111	18,222
39,025	33,097	4,476	13,987	50,845	41,294	18,890	19,905	40,713	32,121	38,634	21,291	145,129	101,244	46,810	24,682
57,084	58,286	8,726	22,487	62,979	64,244	28,890	39,905	50,713	52,121	47,832	39,686	179,783	170,553	55,921	42,914
7,805	6,620	995	2,797	10,169	8,259	3,738	3,981	8,143	6,424	7,726	4,258	29,026	20,249	9,362	4,938
29,869	33,607	3,581	15,439	40,840	43,851	14,953	25,926	29,633	34,376	26,388	25,318	111,910	112,756	35,761	24,374
....	....	....	....	36	....	....	....	2,937	1,321	4,520	910	4,194	2,893	1,887	4,490
37,474	40,227	4,476	18,236	50,845	52,110	18,891	29,907	40,713	42,121	38,634	30,486	145,130	135,898	46,810	33,802
19,610	18,059	4,250	4,250	12,134	12,134	10,000	10,000	10,000	10,000	9,198	9,198	34,654	34,654	9,111	9,111

9. Capital

The capital stock of the FHLBanks has a par value of $100 per share. Capital stock held by members in excess of their statutory requirement can be redeemed at par value by the FHLBanks or sold to other Bank members at par value provided the resulting stock transfer is recorded on the books of the FHLBanks.

Retained earnings of the FHLBanks consist of undivided profits, a legal reserve, and a dividend stabilization reserve. The FHLBanks must transfer 20 percent of their net income to the legal reserve semi-annually until the reserve equals the capital stock amount. Thereafter, 5 percent of the FHLBanks net income must be allocated for this purpose.

In 1980, the Board authorized the Banks to pay a semi-annual dividend for the period ending June 30, and quarterly dividends for the remainder of the year. Dividends are normally paid out of current year's net income and the dividend stabilization reserve. In 1980, the Board permitted the Banks to utilize up to one-half of undivided profits as of December 31, 1979, for the payment of dividends. For 1981, dividends were permitted only to the extent of current year's net income and the dividend stabilization reserve and were authorized to be paid either annually or semi-annually. Dividends may be paid in the form of capital stock if authorized by the Board of Directors.

Stock dividends totaling $148,101,000 were paid in 1981 compared with $186,700,000 in 1980. Cash dividends declared by FHLBanks totaled $282,187,000 in 1981 and $304,117,000 in 1980.

10. Employee Retirement Plan

The FHLBanks are participants in the Savings Associations Retirement Fund (SARF) and substantially all of their officers and employees are covered by the Plan. The FHLBanks' contributions are determined by the SARF. Pension costs charged to operating expenses were $2,843,988 in 1981 and $2,844,010 in 1980.

11. Commitments

Rental expense of $9,817,198 in 1981 and $5,175,396 in 1980 for premises and equipment has been charged to expense. Minimum rentals for each of the next 5 years are as follows:

	Minimum Rentals
1982	$7,626,413
1983	6,862,162
1984	5,435,218
1985	4,135,367
1986	1,611,044
	$25,670,204

The FHLBanks' premise lease agreements provide for increases in basic rentals from increased property taxes and maintenance expense.

Commitments for advances to members and to foreign borrowers under guaranteed loans totaled $3,180,093,000 and $2,013,234,000, at December 31, 1981 and 1980, respectively.

12. Contingencies

As provided for in Section 306(c) of the *Federal Home Loan Mortgage Corporation Act*, the Board has provided for the guarantee by the FHLBanks of certain borrowings of the Mortgage Corporation from the Federal Home Loan Banks of New York and Atlanta. Each of the FHLBanks participates in the guarantee in proportion to its investments in the capital stock of the Mortgage Corporation. (See Note 6.) On December 31, 1981, the Banks have guaranteed $3,438,300,000 of the Mortgage Corporation's borrowings from the Federal Home Loan Banks of New York and Atlanta in the form of passthroughs of the proceeds of certain consolidated obligations.

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